USDA Foreign Agricultural Service
GAIN Report
Global Agriculture Information Network
Template Version 2.09

Required Report - public distribution

Date: 11/14/2003

GAIN Report Number: AS3046

Australia

Dairy and Products

Annual

2003

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Report Highlights:
A one percent increase in fluid milk production is forecast in 2003/04, as more favorable weather conditions and a strengthening of international dairy product prices are providing a somewhat more favorable outlook for the dairy industry. Significant production increases are expected for butter and skim milk powder, at the expense of whole milk powder and cheese. Exports are expected to benefit from firmer world dairy product prices, which will be offset by a steep upturn in the value of the Australian currency.

Includes PSD Changes: Yes
Includes Trade Matrix: Yes
Annual Report
Canberra [AS1]
[AS]

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A one percent increase in fluid milk production is forecast in marketing year (MY) 2003/04 (July-June), as more favorable weather conditions and a strengthening of international dairy product prices are providing a somewhat more favorable outlook for the dairy industry. Significant production increases are expected for butter and skim milk powder, at the expense of whole milk powder and cheese. Exports are expected to benefit from firmer world dairy product prices, which will be offset by a steep upturn in the value of the Australian currency.

Australia's milk production in MY 2002/03 dropped eight percent, primarily due to a widespread drought that caused a steep decline in pasture conditions and fodder reserves, and a corresponding fall in cow numbers and productivity. Aggregate dairy export value dropped to A$2.5 billion (US$1.46 B) in fiscal year 2002/03 (July-June), 24 percent below the record level achieved in the year-earlier period. This decline was primarily due to the rise in the Australian dollar and in part to an easing of world dairy product prices.

Production and exports for MY 2001/02 are estimated at record or near-record levels for most dairy commodities. Continued high world dairy prices, excellent weather, high levels of irrigation water supplies, and historically high cow numbers contributed to these high production and export levels.

The Australian dairy industry continues restructuring following deregulation of milk prices and marketing in July 2000. Prior to deregulation, farmers in regulated states received significantly higher prices for drinking milk. The industry is being assisted by the Dairy Adjustment Program, funded by a levy on milk sales at the retail level.

Note: The exchange rates (US$ value of A$) used for this report are: 2000/01, $0.532; 2001/02, $0.524; 2002/03, $0.583. Currently, the Australian dollar is valued at US$0.715.

SECTION II: STATISTICAL TABLES

FLUID MILK

Australia Dairy, Milk, Fluid							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Cows In Milk	2369	2369	2298	2298	0	2311	(1000 HEAD)
Cows Milk Production	11608	11608	10464	10636	0	10753	(1000 MT)
Other Milk Production	0	0	0	0	0	0	(1000 MT)
TOTAL Production	11608	11608	10464	10636	0	10753	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	3	3	3	6	0	6	(1000 MT)
TOTAL Imports	3	3	3	6	0	6	(1000 MT)
TOTAL SUPPLY	11611	11611	10467	10642	0	10759	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	87	87	87	87	0	87	(1000 MT)
TOTAL Exports	87	87	87	87	0	87	(1000 MT)
Fluid Use Dom. Consum.	1908	1966	1916	1982	0	1981	(1000 MT)
Factory Use Consum.	9616	9558	8464	8573	0	8691	(1000 MT)
Feed Use Dom. Consum.	0	0	0	0	0	0	(1000 MT)
TOTAL Dom. Consumption	11524	11524	10380	10555	0	10672	(1000 MT)
TOTAL DISTRIBUTION	11611	11611	10467	10642	0	10759	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Import Trade Matrix Dairy, Milk, Fluid			
Time Period	**Jan - Dec**	**Units:**	**MT**
Imports for:	2002		2003
U.S.	0	U.S.	0
Others		Others	
New Zealand	2663	New Zealand	4355
		Singapore	20
		Czechoslovakia	7
Total for Others	2663		4382
Others not Listed	20		58
Grand Total	**2683**		**4440**
NB. 2003 figures Jan - Aug 2003 only.			

Export Trade Matrix Dairy, Milk, Fluid			
Time Period	**Jan - Dec**	**Units:**	**MT**
Exports for:	2002		2003
U.S.	53	U.S.	5
Others		Others	
Singapore	22050	Singapore	16746
Hong Kong	18330	Hong Kong	10911
The Philippines	10605	The Philippines	7158
American Samoa	4141	Malaysia	2714
Malaysia	3776	American Samoa	2476
Papua New Guinea	2890	New Zealand	2253
China	2435	Taiwan	1911
Vietnam	2365	Vietnam	1611
Taiwan	1913	Papua New Guinea	1597
Indonesia	1802	Indonesia	1503
Total for Others	70307		48880
Others not Listed	7907		8726
Grand Total	**78267**		**57611**

NB. 2003 figures Jan - Aug 2003 only.

BUTTER

Australia Dairy, Butter							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Beginning Stocks	6	6	3	2	3	2	(1000 MT)
Production	164	164	150	155	0	166	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	8	7	10	7	0	7	(1000 MT)
TOTAL Imports	8	7	10	7	0	7	(1000 MT)
TOTAL SUPPLY	178	177	163	164	3	175	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	125	125	110	112	0	123	(1000 MT)
TOTAL Exports	125	125	110	112	0	123	(1000 MT)
Domestic Consumption	50	50	50	50	0	50	(1000 MT)
TOTAL Use	175	175	160	162	0	173	(1000 MT)
Ending Stocks	3	2	3	2	0	2	(1000 MT)
TOTAL DISTRIBUTION	178	177	163	164	0	175	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	6	6	0	5	0	5	(1000 MT)

Import Trade Matrix Dairy, Butter			
Time Period	**Jan - Dec**	**Units:**	**MT**
Imports for:	2002		2003
U.S.	75	U.S.	43
Others		Others	
New Zealand	5908	New Zealand	4480
Switzerland	20	France	8
Denmark	17	Denmark	7
France	11	Singapore	2
India	3	India	2
		The Netherlands	2
Total for Others	5959		4501
Others not Listed	74		42
Grand Total	**6108**		**4586**
NB. 2003 figures Jan - Aug 2003 only.			

Export Trade Matrix Dairy, Butter			
Time Period	**Jan - Dec**	**Units:**	**MT**
Exports for:	2002		2003
U.S.	6139	U.S.	1024
Others		Others	
Egypt	13693	Rep of Korea	3598
Thailand	7118	Egypt	3488
Singapore	6856	Singapore	3286
Saudi Arabia	6611	Saudi Arabia	3273
Rep of Korea	5800	Thailand	2863
Mexico	5306	Russia	2684
Malaysia	4507	Mexico	2491
Indonesia	4349	Taiwan	2358
Taiwan	3604	Malaysia	2298
UAE	3213	Hong Kong	2081
Total for Others	61057		28420
Others not Listed	44067		21972
Grand Total	**111263**		**51416**
NB. 2003 figures Jan - Aug 2003 only.			

CHEESE

Australia Dairy, Cheese							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Beginning Stocks	58	58	73	73	47	47	(1000 MT)
Production	413	413	371	368	0	360	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	45	45	43	51	0	50	(1000 MT)
TOTAL Imports	45	45	43	51	0	50	(1000 MT)
TOTAL SUPPLY	516	516	487	492	47	457	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	218	218	205	208	0	184	(1000 MT)
TOTAL Exports	218	218	205	208	0	184	(1000 MT)
Human Dom. Consumption	225	225	235	237	0	235	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	225	225	235	237	0	235	(1000 MT)
TOTAL Use	443	443	440	445	0	419	(1000 MT)
Ending Stocks	73	73	47	47	0	38	(1000 MT)
TOTAL DISTRIBUTION	516	516	487	492	0	457	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	11	9	11	9	0	9	(1000 MT)

Import Trade Matrix Dairy, Cheese			
Time Period	**Jan - Dec**	**Units:**	**MT**
Imports for:	2002		2003
U.S.	7	U.S.	9
Others		Others	
New Zealand	36024	New Zealand	23906
Italy	1902	Denmark	1285
Norway	1470	Italy	1109
Denmark	1399	Norway	970
Greece	1119	Bulgaria	840
Bulgaria	1045	Greece	846
The Netherlands	957	The Netherlands	582
France	819	France	543
Germany	460	Germany	302
United Kingdom	155	Romania	106
Total for Others	45350		30489
Others not Listed	576		752
Grand Total	**45933**		**31250**
NB. 2003 figures Jan - Aug 2003 only.			

Export Trade Matrix

Dairy, Cheese

Time Period	Jan - Dec	Units:	MT
Exports for:	2002		2003
U.S.	9198	U.S.	4967
Others		Others	
Japan	85942	Japan	52485
Saudi Arabia	16231	The Netherlands	16235
The Netherlands	14257	Saudi Arabia	10619
Rep of Korea	13368	Rep of Korea	10412
Indonesia	6663	Taiwan	4967
Algeria	5499	Malta	3514
The Philippines	4903	Indonesia	3224
United Kingdom	4183	Algeria	3156
Taiwan	3697	The Philippines	2965
Malta	3636	Hong Kong	2772
Total for Others	158379		110349
Others not Listed	38978		23573
Grand Total	**206555**		**138889**

NB. 2003 figures Jan - Aug 2003 only.

SKIM MILK POWDER

Australia Dairy, Milk, Nonfat Dry							
	2002	**Revised**	**2003**	**Estimate**	**2004**	**Forecast**	**UOM**
	USDA Official [Old]	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	**USDA Official [Old]**	**Post Estimate [New]**	
Market Year Begin		**07/2001**		**07/2002**		**07/2003**	*MM/YYYY*
Beginning Stocks	18	18	14	16	14	6	*(1000 MT)*
Production	261	261	238	215	0	233	*(1000 MT)*
Intra EC Imports	0	0	0	0	0	0	*(1000 MT)*
Other Imports	1	3	2	4	0	4	*(1000 MT)*
TOTAL Imports	1	3	2	4	0	4	*(1000 MT)*
TOTAL SUPPLY	280	282	254	235	14	243	*(1000 MT)*
Intra EC Exports	0	0	0	0	0	0	*(1000 MT)*
Other Exports	231	231	205	199	0	195	*(1000 MT)*
TOTAL Exports	231	231	205	199	0	195	*(1000 MT)*
Human Dom. Consumption	35	35	35	30	0	30	*(1000 MT)*
Other Use, Losses	0	0	0	0	0	0	*(1000 MT)*
Total Dom. Consumption	35	35	35	30	0	30	*(1000 MT)*
TOTAL Use	266	266	240	229	0	225	*(1000 MT)*
Ending Stocks	14	16	14	6	0	18	*(1000 MT)*
TOTAL DISTRIBUTION	280	282	254	235	0	243	*(1000 MT)*
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	*(1000 MT)*
Calendar Yr. Exp. to U.S.	1	1	1	1	0	0	*(1000 MT)*

Import Trade Matrix Dairy, Milk, Nonfat Dry			
Time Period	**Jan - Dec**	**Units:**	**MT**
Imports for:	2002		2003
U.S.	0	U.S.	1
Others		Others	
New Zealand	1230	New Zealand	3190
France	19	France	26
Rep of Korea	4	Japan	18
Taiwan	1	Rep of Korea	4
		Taiwan	3
Total for Others	1254		3241
Others not Listed	114		455
Grand Total	**1368**		**3697**
NB. 2003 figures Jan - Aug 2003 only.			

Export Trade Matrix Dairy, Milk, Nonfat Dry			
Time Period	**Jan - Dec**	**Units:**	**MT**
Exports for:	2002		2003
U.S.	1215	U.S.	0
Others		Others	
The Philippines	43858	The Philippines	11775
Malaysia	28844	Malaysia	11612
Thailand	26674	Japan	8866
Indonesia	20553	Singapore	8510
Singapore	19496	Taiwan	5519
Japan	15193	Indonesia	4519
Mexico	12895	Thailand	3935
China	12331	China	3153
Taiwan	11539	Saudi Arabia	2560
Saudi Arabia	9953	Sri Lanka	1691
Total for Others	201336		62140
Others not Listed	39672		15038
Grand Total	**242223**		**77178**
NB. 2003 figures Jan - Aug 2003 only.			

WHOLE MILK POWDER

Australia Dairy, Dry Whole Milk Powder							
	2002	Revised	2003	Estimate	2004	Forecast	UOM
	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	USDA Official [Old]	Post Estimate [New]	
Market Year Begin		07/2001		07/2002		07/2003	MM/YYYY
Beginning Stocks	10	10	16	15	9	3	(1000 MT)
Production	239	239	205	188	0	180	(1000 MT)
Intra EC Imports	0	0	0	0	0	0	(1000 MT)
Other Imports	4	3	6	4	0	4	(1000 MT)
TOTAL Imports	4	3	6	4	0	4	(1000 MT)
TOTAL SUPPLY	253	252	227	207	9	187	(1000 MT)
Intra EC Exports	0	0	0	0	0	0	(1000 MT)
Other Exports	213	213	195	182	0	162	(1000 MT)
TOTAL Exports	213	213	195	182	0	162	(1000 MT)
Human Dom. Consumption	24	24	23	22	0	20	(1000 MT)
Other Use, Losses	0	0	0	0	0	0	(1000 MT)
Total Dom. Consumption	24	24	23	22	0	20	(1000 MT)
TOTAL Use	237	237	218	204	0	182	(1000 MT)
Ending Stocks	16	15	9	3	0	5	(1000 MT)
TOTAL DISTRIBUTION	253	252	227	207	0	187	(1000 MT)
Calendar Yr. Imp. from U.S.	0	0	0	0	0	0	(1000 MT)
Calendar Yr. Exp. to U.S.	0	0	0	0	0	0	(1000 MT)

Import Trade Matrix Dairy, Dry Whole Milk Powder			
Time Period	**Jan - Dec**	**Units:**	**MT**
Imports for:	2002		2003
U.S.	6	U.S.	2
Others		Others	
New Zealand	3053	New Zealand	2749
Finland	126	Finland	34
Indonesia	22	Singapore	25
France	10	France	6
Taiwan	1		
Croatia	1		
Total for Others	3213		2814
Others not Listed	90		42
Grand Total	**3309**		**2858**
NB. 2003 figures Jan - Aug 2003 only.			

Export Trade Matrix Dairy, Dry Whole Milk Powder			
Time Period	**Jan - Dec**	**Units:**	**MT**
Exports for:	2002		2003
U.S.	57	U.S.	38
Others		Others	
China	22212	Taiwan	7715
Sri Lanka	19982	Sri Lanka	6755
Indonesia	19768	Singapore	5654
Taiwan	13432	China	5238
Singapore	11612	Indonesia	5136
Oman	9158	Bangladesh	4972
Malaysia	8893	Malaysia	4056
Bangladesh	8835	Vietnam	3750
Thailand	8382	Mauritius	3154
Nigeria	7304	Saudi Arabia	2217
Total for Others	129578		48647
Others not Listed	54377		18992
Grand Total	**184012**		**67677**
NB. 2003 figures Jan - Aug 2003 only.			

SECTION III: SUPPLY AND DEMAND, POLICY AND MARKETING

DAIRY - GENERAL

Production

Australia's dairy industry is predominantly pasture-based, with over three quarters of feed derived from grazing. Most dairy production is located in eastern coastal areas where pasture growth mostly depends on natural rainfall. There are several inland irrigation schemes that support dairy enterprises, notably in northern Victoria and southern New South Wales. Feedlot-based dairying remains unusual in Australia, although the use of supplementary feed is becoming more widespread.

The number of Australian dairy farms continues to fall, while the average dairy enterprise gets larger. Australia now supports about 11,000 dairy farms, down from the 22,000 that existed in 1980. Average herd size is now about 215, substantially higher than the average of 85 in 1980. Some very large dairy operations have emerged in recent years, mostly designed on a corporate model. The majority of Australia's dairy farms are still family owned and operated. About two-thirds of Australia's dairy farms are in the State of Victoria, while New South Wales and Queensland account for another one-quarter.

The Australian Bureau of Agriculture and Resource Economics (ABARE) projects rising milk production and dairy product exports through 2007/08, driven by rising cow numbers and milk yield per cow. ABARE forecasts total milk production at 11.44 million liters in 2007/08, up 13 percent from their preliminary 2002/03 figures. Domestic real milk prices are expected to decline slightly over the forecast period.

Dairy Manufacturing and Marketing Channels

Less than 20 percent of Australia's milk production enters the drinking milk sector, while the remainder is destined for the processing sector. The volume of milk destined for drinking milk has remained relatively constant, with the growth in usage coming from the processing/manufacturing sector. The major production streams are: butter/skim milk powder, casein/butter, cheese, and whole milk powder. Australia also produces substantial quantities of fresh dairy products, including yogurt, dairy desserts, cream and ice cream. In recent years, the trend has been toward cheese and whole milk powder production, and away from butter and skim milk powder. Similar to the farm sector, the processing sector is increasingly characterized by higher intake per factory and larger processing capacity.

Milk is processed by both farmer-owned cooperatives and public and private companies. The industry is dominated by cooperatives, which account for about three-quarters of all milk output. The three largest cooperatives – Murray Goulburn Cooperative Ltd., Bonlac Foods Ltd. and the Dairy Farmers Group – account for over 60 percent of all milk intake, and over 70 percent of all milk used for manufacturing.

In a recent restructuring agreement, Fronterra (the previous New Zealand Dairy Board and which is 100 percent owned by New Zealand dairy farmers) increased their shareholding of Bonlac Foods Ltd. from 25 percent to 50 percent, while Bonlac Supply Co., the cooperative of Victorian and Tasmanian dairy farmers who supply milk to Bonlac Foods, reduced their holding from 75 percent to 50 percent. Under new arrangements, Fronterra will assume management responsibility for the business and for sales and marketing of all Bonlac's production. Fronterra also has a large shareholding in National Foods Ltd., Australia's largest publicly listed dairy company.

In addition to farmer cooperatives, there are a number of multinational dairy companies operating in Australia, including Fonterra, Nestle, Kraft and Parmalat. Meiji and Snow Brand also have operations in Australia, which are closely tied to local cooperatives.

Drinking milk sales are dominated by supermarkets, which control over one-half of all sales on a national basis.

Dairy Industry; Structure and Organization

The dairy industry is one of Australia's key rural industries. The farmgate value of production in MY 2001/02 was nearly A$4.0 billion (US$2.1 B), ranking it third behind the wheat and beef industries. Over 55 percent of Australian milk production is exported, primarily as manufactured products. In MY 2001/02, exports were valued at a record A$3.25 billion (US$1.7 B). At the ex-factory level, industry output is estimated to be nearly A$10 billion (US$5.2 B).

There are a number of organizations that represent different components of the dairy industry:

Australian Dairy Industry Council: ADIC is the dairy industry's peak policy body, coordinating industry policy and representing all sectors of the industry on national and international issues.

Australian Dairy Farmers' Federation: ADFF provides national representation for dairy farmers. The ADFF has six member dairy farmer organizations, representing each state.

Australian Dairy Products Federation: ADPF is the national organization representing the interest of dairy product manufacturers.

Market Milk Federation of Australia: The MMFA is an industry association that represents the interest of liquid milk processors to governments and other organizations.

Dairy Australia (DA): DA is a producer owned company, with the overall goal to enhance the profitable production and marketing of Australian dairy produce. DA was formed in July 2003 through the merger of the Australian Dairy Corporation (ADC) and the Dairy Research and Development Corporation (DRDC). Among DA activities are generic promotion of Australian dairy products, seeking trade liberalization and market access, market intelligence, and dairy research. As of July 2002, the ADC withdrew from its role as the "single desk seller" of certain Australian cheeses in Japan and under the EU quota.

DA is funded by levies paid by farmers. The levies are imposed on the fat and protein content of all milk produced in Australia. The Commonwealth government also provides some matching funds for specific research and development activities.

Deregulation

In Australia, state governments traditionally were responsible for ensuring supplies of drinking milk to consumers. Individual states operated either pooling or quota systems to source milk from farms, and controlled pricing and distribution. As a result of this system, market milk prices averaged twice that of manufacturing milk.

The federal government's regulation of the manufacturing sector was aimed at providing a small measure of support for manufacturing milk prices, while still allowing prices to move in line with export returns. This support, provided via various schemes (the Kerin and Crean plans, and lastly the Domestic Market Support scheme), was phased down and eliminated in June 2000.

As the final steps in the deregulation process, all states repealed legislation governing sourcing and pricing of drinking milk, and the state milk authorities, which administered these controls, were phased-out by July 2000.

The federal government announced the Dairy Adjustment Program (DSAP) in September 1999. The DSAP involves the imposition of a Dairy Adjustment Levy of A$0.11 per liter (at the retail level) on consumers of products marketed as dairy beverages. The levy funds quarterly DSAP payments, over eight years, to Australian dairy farmers in order to assist them in making the necessary adjustments to a deregulated environment. The levy is due to end in 2008 at the conclusion of the DSAP scheme.

Dairy Trade

Australia is the third largest dairy exporter in the world, following New Zealand and the European Union. Australia's dairy export performance has suffered from the severe drought of 2001/02, lower international prices for some dairy products, and a recent surge in the value of the Australian dollar. Dairy export value dropped to A$2.5 billion (US$1.46 B) in 2002/03, 24 percent lower than the record A$3.25 billion (US$1.7 B) achieved in 2001/02. With improved weather conditions and firmer market prices, the 2003/04 season is expected to be somewhat improved.

With rising milk production and relatively flat growth in domestic consumption of milk and dairy products, Australia's dairy exports have expanded substantially in volume terms in recent years. The most significant export growth has come from cheese and whole milk powder, while exports of liquid milk, butter and butter oil, and skim milk powder have shown lesser or no growth, or have actually declined. Australia's primary dairy product export markets are in Asia, the Middle East and Egypt.

Australia also produces and exports significant quantities of whey products and casein and caseinates. Production and exports of these products have grown fairly steadily in recent years. According to dairy industry estimates, production of whey products totaled about 87 TMT in 2001/02, while exports totaled about 56 TMT. In this same year, casein production totaled about 13.5 TMT and exports 10.5 TMT.

Australia also imports dairy products, primarily cheese from New Zealand.

ABARE's longer-term projections show a substantial rise in dairy product exports through 2007/08. According to ABARE, cheese export volume is forecast up 13 percent, skim milk and whole milk powder up 10 percent, and butter up four percent, versus their preliminary figures for 2002/03.

Trade Policy

Australia and Thailand announced in mid October 2003 that negotiations on a bilateral Free Trade Agreement (FTA) had been completed. The FTA is expected to be signed in the early part of 2004 and go into effect the beginning of 2005. Australia's dairy access to Thailand was an important component of the FTA negotiations. Reportedly, Thailand's tariffs on Australia's dairy products will be phased out immediately or over a set time period. Thailand's tariffs on skim milk powder and liquid milk and cream will not be eliminated until 2025. Thailand represents an important and growing market for Australia's dairy industry.

Australia is currently in the process of negotiating a Free Trade Agreement with the United States and is seeking greater access to the U.S. market for dairy products. Tariff rate quotas govern much of Australia's current dairy product exports to the United States.

FLUID MILK

Production

Milk production for MY 2003/04 (July-June) is forecast at 10,753 TMT, up about one percent on the previous year and in line with the most current forecast from the Australian Bureau of Agricultural and Resource Economics (ABARE). This level of production is approximately equivalent to 10,440 million liters of milk using a liquid-weight conversion factor of 1.03. Industry statistics for the first two months of MY 2003/04 show a significant decline from the same period for the previous year. However, with drought conditions currently breaking down and irrigation water supplies steadily improving, milk production is expected to improve in the near-term.

Milk production for MY 2002/03 is estimated at 10,636 TMT, down eight percent on the previous year's record production and slightly above Post's previous forecast (see Gain Report #AS3015). This production figure is in line with figures reported by Dairy Australia (DA), the former Australian Dairy Corporation, and slightly under the figure reported by ABARE. Drought conditions across much of the Australian continent led to substantially depleted pasture and fodder reserves. A sharp reduction in irrigation water supplies also trimmed milk output, particularly in the state of Victoria, where the bulk of Australia's dairy output takes place.

Post forecasts cow numbers to increase slightly to 2.311 million head in MY 2003/04, with the anticipated gradual improvement in pasture and fodder availability. Cow numbers are estimated by Post to have fallen to 2.298 million head in MY 2002/03, three percent lower than the previous year. This decline is in line with ABARE's projected decline in cow numbers. Industry figures for MY 2002/03 are not yet available.

Yield is estimated to have fallen to 4,493 liters per cow in MY 2002/03, down just under six percent from the previous year. Milk yield is projected to improve somewhat in MY 2003/04, to 4,757 liters per cow.

Post estimates milk production at 11,608 TMT in MY 2001/02, unchanged from the previous estimate. This figure is equivalent to 11,271 million liters, in line with both ABARE and DA figures, using a liquid-weight conversion factor of 1.03. ABARE's historical records have this annual production level at a record high.

Consumption

Post estimates fluid milk consumption at 1,982 TMT in MY 2002/03 and forecasts consumption to remain relatively unchanged in MY 2003/04. Domestic fluid milk consumption is forecast to remain relatively flat across the series with only slight changes from year-to-year. This is in line with ABARE figures and anecdotal evidence showing minimal fluctuation in consumption over the longer term.

Industry sources estimate that fluid milk sales increased by 0.4 percent in MY 2002/03, and that this trend is likely to continue into MY 2003/04.

Trade

Post estimates exports of fluid milk at 87 TMT in MY 2002/03 and MY 2003/04. Exports of fluid milk remain at less than one percent of total production. Industry sources report these exports mostly consist of longer life milk products such as UHT.

Singapore, Hong Kong and the Philippines are Australia's largest export markets for UHT. Collectively, the Pacific Islands are also a large export market.

Stocks

Official statistics on milk stocks are unavailable. Stock numbers provided by Post are derived from production, exports and domestic consumption figures. Post believes these to be reflective of commercial stock levels.

BUTTER

Production

Butter production in MY 2003/04 is forecast to increase seven percent to 166 TMT, in line with ABARE figures. According to ABARE, world butter prices have improved recently and are expected to remain firm during MY 2003/04. It is anticipated that butter (and skim milk powder) production will increase at the expense of some other dairy commodities. Delivery of milk to manufacturers is expected to improve somewhat in 2003/04, with a return to more normal weather conditions.

Butter production in MY 2002/03 is estimated at 155 TMT, well below Post's previous estimate. This new production figure is in line with ABARE's current estimates and slightly above DA figures. Widespread drought conditions and the subsequent fall in milk production significantly reduced butter production in MY 2002/03.

Butter production for MY 2001/02 is estimated at 164 TMT, unchanged from Post's previous report and in line with ABARE and DA figures. While not representing a record, this production level is high according to ABARE's historical data.

Consumption

Post estimates butter consumption at 50 TMT in 2002/03, unchanged from the previous report. Consumption in 2003/04 is forecast to remain unchanged at 50 TMT. Official consumption figures are unavailable. Post estimates consumption using a figure derived from production and exports, which is in line with anecdotal evidence showing little if any change in butter consumption.

Trade

Post forecasts butter exports in 2003/04 to increase 10 percent to 123 TMT, a similar level to that achieved before the drought of the previous year. Increased production, relatively firm prices and stagnant domestic consumption are anticipated to drive this significant increase. Media reports suggest that improved butter prices will divert production away from cheese in 2003/04. Skim milk powder (SMP) production is closely related to butter production and is also expected to increase.

Post estimates butter exports at 112 TMT in 2002/03, down 10 percent from the previous year and in line with ABARE numbers. Greatly reduced milk supply for manufacturing purposes is believed to be the primary reason for the large decline.

According to official Australian Bureau of Statistics (ABS) data, Australia's largest export market for butter is Egypt, taking over 12 percent of total exports in CY 2002. Thailand, Singapore and Saudi Arabia are the next largest markets. The United States is the 5th largest market with 6,139 MT, or around six percent of total exports.

Stocks

Post places ending stocks at very low levels across the series. This is due to reduced production and continued strong export demand relative to supply.

CHEESE

Production

Cheese production in MY 2003/04 is forecast to fall two percent to 360 TMT, a figure more reflective of the long-term average and in line with ABARE figures. Cheese prices are forecast to improve only marginally in 2003/04, remaining well under the levels achieved in MY 2001/02. This, combined with only a marginal increase in total milk production is expected to put downward pressure on cheese production.

Cheese production in MY 2002/03 is estimated to have fallen to 368 TMT, slightly under Post's previous figure and in line with DA figures. This represents a fall of around 11 percent on the previous year's record level of production and reflects the dramatic change in climatic conditions, and to a lesser extent, the lower prices received for cheese.

Post estimates cheese production in MY 2001/02 at 413 TMT, unchanged from the previous report and in line with record level of production reported by both DA and ABARE. Excess milk production in MY 2001/02 was largely utilized for cheese production, a product with a long life and more conducive to marketing.

Australia's cheese production is dominated by cheddar and cheddar types, which comprise more than one-half of the total, followed by Mozzarella.

Consumption

Cheese consumption in MY 2003/04 is forecast at 235 TMT, down slightly from the 237 TMT estimated for the previous year. Post has consumption figures remaining relatively unchanged across the series. Official statistics are not available for cheese consumption; however, anecdotal evidence suggests that consumption does not vary greatly from year-to-year.

Trade

Post forecasts exports of cheese to fall around 11 percent in MY 2003/04 to 184 TMT, in line with the most current ABARE export figures. Cheese exports are estimated to have fallen to 208 TMT in 2002/03, down four percent from the 218 TMT exported the previous year. According to industry sources, lower export prices and depletion in stocks has seen cheese exports fall further than production in 2003/04.

Official ABS figures have Japan as Australia's largest export market for cheese in CY 2002, with shipments of 85,942 MT, or 42 percent of total cheese exports. Saudi Arabia, the Netherlands and the Republic of Korea are the next three largest markets and when combined account for around 21 percent of total exports. The United States was the fourth largest export market with 9,198 MT, or just over four percent of Australian cheese exports.

Lower exports for MY 2002/03 and MY 2003/04 follow a period of significant annual increases. Historical figures have cheese exports at 119,400 MT in 1995/96, just over half the level achieved in 2001/02.

Australia imports about 50 TMT of cheese annually. The bulk of these imports are supplied by New Zealand.

Stocks

Post has ending stocks falling to 47 TMT in MY 2002/03, down significantly from the 73 TMT of the previous year. This steep reduction is due to lower production caused by drought-reduced milk production, combined with relatively firm export demand. Post forecasts ending stocks to decrease to 38 TMT in 2003/04.

SKIM MILK POWDER

Production

Production of skim milk powder (SMP) is forecast to rise eight percent to 233 TMT in MY 2003/04, a figure more representative of the long-term average and trending in line with ABARE figures. Increased SMP production is closely related to increased butter production.

SMP production for MY 2002/03 is estimated at 215 TMT, down 18 percent on the previous year and in line with recent DA figures. Despite the size of this fall, ABARE has SMP production falling even further in MY 2002/03 to 179 TMT, equal to a decline of 31 percent from the previous year. Post has used DA numbers, as ABARE's figures appear too exaggerated.

Consumption

Post has consumption remaining flat in MY 2003/04 at 30 TMT. Post estimates consumption fell 16 percent in the previous year to 30 TMT, in line with a similar decline in production. Post estimates domestic consumption to account for around 14 percent of total production.

Official government statistics concerning consumption of SMP are not available. However, anecdotal information from industry sources suggests that significant quantities of milk powder are used for food manufacturing purposes and small amounts are used in stock feeds. Consumption figures quoted by Post are the residual of production and exports.

Trade

Post forecasts exports in MY 2003/04 to fall two percent to 195 TMT. This small decline is forecast despite a modest increase in production. Post anticipates that the rebuilding of stocks and stable domestic consumption is likely to constrain exports below the levels achieved in the previous year. Furthermore, export figures for the first two months of MY 2003/04 show a 58 percent decrease when compared to the same period in the previous year. Post anticipates a recovery in the final three quarters but does not expect total exports for MY 2003/04 to surpass those for MY 2002/03.

Post estimates exports to have fallen 14 percent in MY 2002/03, in line with the large drop in production estimated for that year. Despite such a large fall in exports, analysis of historic figures show fluctuations from year to year in the order of 10 to 20 percent.

Official ABS data for CY 2002 show the Philippines as Australia's largest market taking 43,858 MT of SMP, or around 18 percent of the total. Malaysia, Thailand, Indonesia, Singapore and Japan are the next largest export markets.

WHOLE MILK POWDER

Production

Whole milk powder (WMP) production for MY 2003/04 is forecast at 180 TMT, down four percent on the previous year and trending in line with ABARE figures. Production is estimated at 188 TMT in MY 2002/03, in line with the most recent ADC figures. This is down sharply on the record production for the previous year and more in line with the longer-term average.

Historical figures for WMP show production increasing from 81 TMT in MY 1995/96, to a record 239 TMT in MY 2001/02.

Consumption

Consumption is forecast at 20 TMT in MY 2003/04, down slightly on the 22 TMT estimated for the previous year. Official ABS statistics for the consumption of WMP are not available. Figures provided by Post are derived from production and exports.

Trade

Exports of WMP are forecast to decrease 11 percent in MY 2003/04, to 162 TMT. Exports of WMP in MY 2002/03 are estimated at 182 TMT, down 15 percent on the previous year.

China, Sri Lanka and Indonesia are Australia's largest export markets taking around 30 percent of total exports.